UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

E

Distr.
GENERAL

E/ECA/TRADE/89/24
1 November 1989

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

Conference of African Ministers of Trade
13-15 November 1989

Addis Ababa

LC/NAIROBI

REPORT TO THE CONFERENCE OF AFRICAN MINISTERS OF TRADE ON THE SITUATION OF TRADE RELATIONS BETWEEN AFRICA AND CHINA

I. INTRODUCTION

1. This brief progress report on the trade situation between Africa and the People's Republic of China is pursuant to the decision taken at the eighth and ninth Conference of African Ministers of Trade. It is based on the study prepared by the secretariat entitled "Mechanisms for Facilitating Trade between African Countries and China" 1/ Although this study covers only a few African countries, many of the observations apply in general to the whole of the African region.

2. Both Africa and China have much to gain in the short, medium and long term through mutually agreed programmes to promote and expand their trade relations. First and foremost, there is a commitment to the volume and composition of their exports to support their respective development efforts. This is in accordance with the wishes of the African policy makers both at national level and during the various regional African forums. Secondly, Africa and China have great potentials to complement each in the demand and supply functions. Thirdly, both acknowledge that trade between them is particularly important to the wellbeing of their peoples basically because it can act as a powerful "engine of economic growth" and a basis for reducing in the long run the need for foreign assistance.

3. Because of Africa's traditional ties with the former metropolitan powers, China is not Africa's major trading partner. However, there are a few African countries with a fairly good number of people of Chinese descent. It is also important to note that China and Africa share certain common features by virtue of both claiming to be developing regions. Moreover it is also worth recalling that China materially and politically supported the independence struggle of some African countries.

4. It was not until 1979 that the People's Republic of China adopted an "open-door" policy allowing for greater interaction with the outside world. Underlining this concept is the belief that trade with the outside world was to be based on equality and mutual benefit and to advance towards multilateralism. The foreign trade system reforms that were introduced in 1979 ushered in the decentralizing of management of the sector. Thus, departments and enterprises of industrial production and local governments at various levels were allowed to engage directly in export and/or import instead of the centralized management by national foreign trade corporations under the former Ministry of Foreign Trade.

5. Further reforms of foreign trade system by the Chinese Government took place in 1984 and were intended to further strengthen and improve the control of the macro economic and administrative systems. In other words, they were intended to rationally regulate foreign trade using exchange rates, customs duties, taxes and credits. The key element was to increase exports and earn foreign exchange which was required in order to increase imports of technology on a very large scale.

1/ See Document E/ECA/TRADE/87/7

II. RECENT TRENDS OF AFRO-CHINESE TRADE

A. Overview

6. Statistics show that on the whole Afro-Chinese trade relations were relatively much stronger during the 1960s and 1970s than during the 1980s. The volume of trade between African countries and China increased significantly through the '70s due to several factors such as (a) mutual desire of both the African countries and China to visibly demonstrate the strength of their close relations formed during the pre independence days (b) implementation of various development and industrial projects undertaken by the Chinese in some newly independent African countries involving the importation of large amounts of machinery and consumer goods and (c) relatively healthier foreign exchange and balance of payments position of the African economies due to the generally favourable terms of trade then prevailing for the various commodities Africa was exporting.

7. Africa, on the other hand, had several agricultural commodities that China needed as raw materials for its domestic production in exchange for variety of light consumer manufactures that China offered rather cheaply in comparison with those Africa obtained from other sources. Chinese goods were at the same time serviceable, especially for the needs of the majority of the low income African urban and rural populations. Africa's main export items included coffee, tea, cotton, cashewnuts, sisal and sisal fibre and hides and skins. Chinese exports to Africa included textiles, bicycles, cutlery and kitchenware, hoes, stationery, chinaware, stoves, toys, hardware, etc.

8. The 1960s and 1970s also saw a very significant involvement by the Chinese in the industrial and economic development efforts of several African countries. In Tanzania and Zambia, for instance, the Chinese accomplished what still remains as the largest Afro-Chinese venture to date, the Tanzania Zambia Railway line (TAZARA). In addition, these years also witnessed fairly close relationships in the cultural and military fields resulting in the construction of national sports stadium by the Chinese and the importation of sundry Chinese-made weapons and other war material by a number of African countries. Over and above, several African Heads of State and Government made state visits to China during the 1960s and 1970s. These visits were designed not only to demonstrate the ties of friendship and solidarity but also to develop further opportunities for bilateral trade. In general, therefore, the combination of favourable economic conditions and high profile political initiatives both from Africa and China ensured a relatively buoyant trade relationship between Africa and China.

9. During the 1980s the value of trade between China and its African trading partners declined quite remarkably. From a high of US$760 million of exports in 1982 China exported only US$421 million to Africa in 1986. A similar picture of the volume of trade in the tables in the study (E/ECA/TRADE/89/7) for 1987 is shown in the annex. China's imports of African goods declined from a high of US$ 311 million in 1983 to only US$ 254 million in 1986 and to US$ 154 million in 1987. Africa had a negative balance of trade position in favour of China in excess of US$ 320 million in 1986 and US$ 1076 million in 1987. In other words,

Africa imported more than twice as much as it exported to China in 1986 and nearly eight times in 1987. The main reasons for the drastic decline and unfavourable trade situation relate largely to: (a) China's increasing self-sufficiency in the production of agricultural commodities which Africa traditionally used to supply in the 1960s and 1970s, and (b) the deteriorating foreign exchange position of most African countries since the beginning of the 1980s.

10. From data in the study "Mechanisms for Facilitating Trade between African Countries and China" (E/ECA/TRADE/89/7), no less 46 African countries have established trade links with China. However, Africa accounted on average for only 2.4 per cent of China's export trade and about 1.1 per cent of its imports during the 1980s.

11. The trade relations of China with African countries are governed by agreements that incorporate observance of the most-favoured nation clause of GATT and contain an indicative list of commodities to be exchanged between the two parties. In a few cases, payments agreements are also included.

12. Most African countries have throughout the 1980s experienced acute balance of payments problems resulting from generally poor economic performance. This in turn has been caused by a number of factors including a general world economic recession and attendant collapse in basic commodity prices; non-competitive import-dependent processing/manufacturing industries; low capacity utilization; protectionism from the developed market economies; sometimes inadequately conceived policies and programmes; and a host of natural disasters and other socio-political problems. Together they have seriously undermined Africa's external purchasing power and denied it the means for cost effective investment in value added processing.

III. CONCLUSIONS AND RECOMMENDATIONS

13. On the basis of what is stated above, and in order to ensure effective exploitation of the potential for Afro-Chinese trade, African governments should consider the following recommendations:

A. Policy measures

(a) Adopting a definite policy position aimed at encouraging the promotion of bilateral trade with China. This policy position should be widely popularized among key interested parties such as farmers, the commercial and industrial business community and government officials. Hitherto, although a number of African countries have signed trade agreements with China, there is no well-articulated policy to focus public and private sector interest in developing two-way trade with China.

(b) African countries with diplomatic representation in China should ensure that they have viable and effective commercial representation in China charged with the primary responsibility for identifying and popularizing economic/trade opportunities including areas for joint ventures between China and their respective countries.

(c) African countries should identify sectors such as agriculture, agro industry and rural development oriented industrial investment to popularize for joint national investment with China. These should be areas in which China has acquired experience and whose exploitation would enhance the value-added process of transforming Africa's traditional export commodities.

(d) African governments and the business community should recognise that doing business with China is like doing business with any other commercially-oriented trading partner - it requires adequate mental and managerial preparation and a knowledge of how the Chinese business culture works. The Chinese importer/exporter is no more benevolent than any of their counterparts in other parts of the world.

(e) African governments should actively involve their business community (public and private) in the main stages leading to the identification and exploitation of business opportunities with China. In other words, there should be an accelerated shift from government to government deals in favour of commercial transactions negotiated by the respective business houses in China and the African country. Afro-Chinese trade must be seen and practiced as a normal, unmystified trade.

B. Institutional Mechanisms

(a) There is an urgent need for the establishment of a more effective and comprehensive Afro-Chinese trade information service to especially sensitise the African business community to the opportunities, problems and practices in Afro Chinese trade and other areas of economic co-operation. Perhaps such bodies as the United Nations Economic Commission for Africa (ECA), in collaboration with the United Nations Economic Commission for Asia and Pacific (ESCAP), the International Trade Centre (ITC/UNCTAD/GATT), the Preferential Trade Area for Eastern and Southern Africa(PTA) and the Economic Community of West African States (ECOWAS) could take the lead in regional initiatives to bridge the trade information gap and to demystify the Chinese market for African exports and imports.

(b) More effective use should be made of the joint commissions/committees established by several African countries with China to implement the provisions of bilateral Trade Agreements with China. To this end, there should be more effective representation of the agricultural, commercial and industrial business community on these joint commissions/committees and less of government civil servants.

(c) ECA, PTA and ITC in collaboration with appropriate Chinese authorities should consider organising an Afro Chinese Expo-Trade Fair current with a trade symposium either in Africa or China to provide the opportunity for a comprehensive exposure of the export import potential existing in Africa and China.

(d) In order to mitigate the adverse effects of the pervasive foreign exchange problems, African countries should promote the use of barter or counter-trade arrangements especially involving the development and export of non-traditional agricultural products. To minimize the inherent problems that barter trade entails, each country should establish a Barter Trade Commission to manage the implementation of such an arrangement.

(e) Since neither the Chinese Yuan nor any of the currencies of the African trading partners are freely convertible internationally, steps should be taken to establish the feasibility of African countries maintaining reciprocal bank accounts in local currency with China as a payments and clearing system for selected items of trade. For instance, China would procure needed imports from an African country using that country's currency and the above country would in turn procure needed Chinese imports using the Yuan. Encouragement ought to be given to the establishment of a Clearance System by the respective Central Bank authorities.

ANNEX

EXTERNAL TRADE OF CHINA

(US$ millions)

	Exports	Imports
	1987	1987
IFS World total	39,542	43,392
DOTS World total	39,464	43,222
Industrial countries	14,536	26,452
United States	3,030	4,836
Canada	409	1,403
Australia	298	1,325
Japan	6,392	10,087
New Zealand	44	216
Austria	23	266
Belgium-Luxembourg	253	296
Denmark	111	173
Finland	59	155
France	435	899
Germany	1,423	3,139
Iceland	2	
Ireland	11	2
Italy	27	1,240
Netherlands	606	231
Norway	124	103
Spain	120	336
Sweden	98	321
Switzerland	189	503
United Kingdom	532	900
Developing countries	22,579	13,903
Africa	1,230	154
Algeria	44	3
Angola	14	-
Benin	16	-
Botswana	3	2
Burkina Faso	3	-
Burundi	2	1
Cameroon	7	-
Cape Verde	-	-
Central African Republic	1	-
Chad	1	-

	Exports 1987	Imports 1987
Comoros	-	-
Congo	2	2
Cote d'Ivoire	23	11
Djibouti	7	-
Equatorial Guinea	-	-
Ethiopia	7	1
Gabon	2	5
Gambia, the	8	-
Ghana	4	14
Guinea	5	-
Guinea-Bissau	-	-
Kenya	26	6
Liberia	30	-
Madagascar	6	-
Mali	6	2
Mauritania	21	-
Mauritius	22	-
Morocco	127	25
Mozambique	5	7
Namibia	-	-
Niger	4	-
Nigeria	22	3
Reunion	3	-
Rwanda	6	-
Senegal	11	2
Seychelles	1	-
Sierra Leone	3	-
Somalia	3	2
Sudan	19	1
Tanzania	12	1
Togo	17	3
Tunisia	19	22
Uganda	12	-
Zaire	708	5
Zambia	1	5
Zimbabwe	-	27
Africa not specified	5	5

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 1988.